RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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THE PICTURE: So far this year the broad S&P 500 has advanced about 26%, while the blue-chip D-J Industrial Average is up roughly 24%. Of course all statistics are history, and while history can be fascinating, what we're obviously interested in -- is what lies ahead.

The bulls can put forth convincing arguments. They can remind us that a trend (in this case the bullish trend) continues in force until *proved otherwise,* and so far, there's been no "otherwise." In other words, they can state that the bull trend of the stock market remains intact. No Dow Theory bear market signal has been given. No decisive reversal of my Primary Trend Index has yet occurred.

The bears have their own arguments. They repeat their warnings that the market has been uncorrected for literally years, that stocks are chronically overvalued, that equities are in weak hands, that the proliferation of mutual funds is surreal, and, finally, that the market is obviously in its third and final phase, meaning too much bullishness, too many secondaries and stock splits, too many new issues, too many mergers, and just too much of everything except caution.

The Funds: The public continues to pour its earnings and savings into the stock market in staggering amounts via the funds. Two weeks ago it was reported that in August, funds specializing in US stocks took in a total of $11.8 billion. This was the second highest amount in history and just slightly less than July's record of $12.4 billion.

Commenting on the above, the *New York Times* stated, "The performance was driven in significant part by July and August having been the two best months ever for the riskiest type of stock funds. Many of them have performed well this year, in large part by buying technology stocks." The *Times* added, "Domestic stock mutual funds had only 6.8% of their assets in cash at the end of August, unchanged from the previous month. Since 1984, when the institute began keeping such records for domestic funds, the cash ratio had never before this year fallen below 7.4%. It has been under that level for six consecutive months."

The massive flow of stocks into "weak hands" continues unabated (to explain, I equate money in mutual funds with money in weak hands). In my opinion, this process is slowly but surely setting up the stock market with one of the most painful situations in market history. I am referring to the time when the primary trend of the market finally turns from bull to bear.

The danger inherent in a reversal of the primary trend is easy to understand, particularly in view of the enormous (absolutely unprecedented) amount of equities now in the hands of the public through the funds.

But the most serious part of it is the effect a bear market would have on the economy. As millions of fund holders see their assets sinking in price (and along with the funds a large part of their life savings), they will "pull in their horns" and literally cease buying everything but the food they put on the table.

I realize that the above flies in the face of conventional wisdom, wisdom that is convinced that the public's unending buying of mutual funds is an economic blessing and a powerful argument for stability.

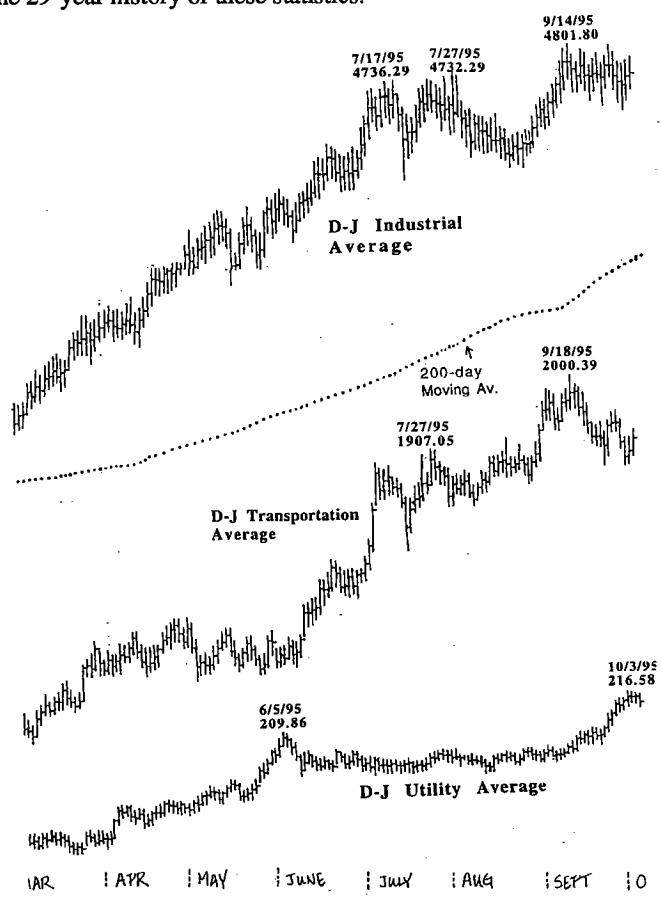
Sept. 29 DJIA 4789.08; PTI 4288; A-D Ratio -3.14
Oct. 6 DJIA 4769.21; PTI 4293; A-D Ratio -3.49
Dow Yield: 2.43%; Dow Price/Earnings: 14.9
Dow 200-day MA: 4339; Dow 30-day MA: 4725
Dow Times Book Value: 3.65; PTI 89-day MA: 4221
Percentage of Undervalued Blue-chips: 4%
Gold 200-day MA: 384.88; Gold-PTI: 684

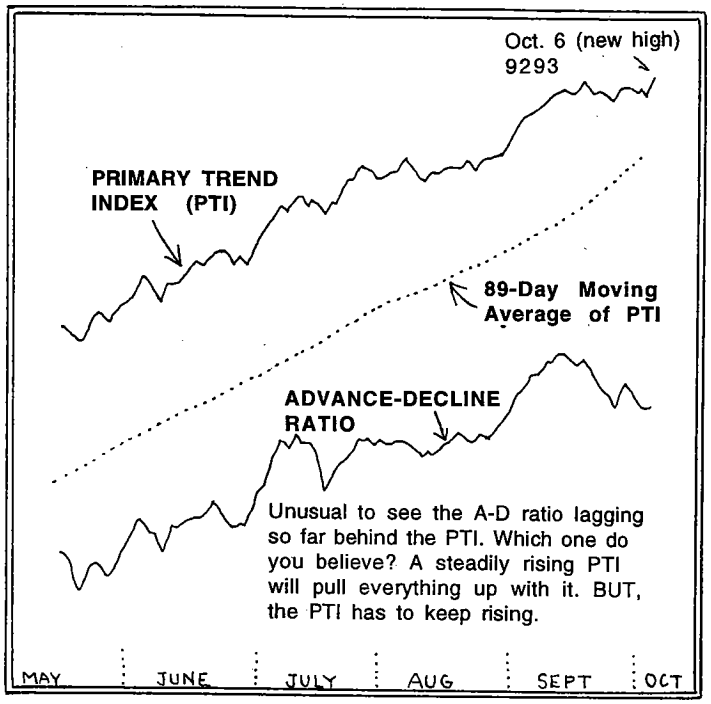
However, in my experience the movement of stocks from strong to weak (public) hands is never a blessing for Wall Street or the nation, at least in the long run. True, it is the public which adds the froth and fury to the final or third phase of any bull market. Unfortunately, it is also the public which panics and unloads as a primary bear market works its way south to lower and lower levels.

But enough about the funds. Let's turn our attention to the market itself. The highs for the D-J Averages are as follows: the Dow hit a record high of **4801.80** on September 14. The Transports hit their own record high of **2000.39** two trading days later, on September 18. Since then it's been a matter of seemingly aimless fluctuations.

Comments: I note that a rising bond market (i.e., lower interest rates) seems to have less and less of a bullish influence on this market. Recently, we have seen a number of days in which bonds were up strongly and the stock market was down. This is rather unusual and it's not bullish.

Last week *Investment Quality Trends* (here in La Jolla) announced that the "Percentage of Blue-Chip stocks that are Undervalued" had dropped to **4%.** This is the lowest percentage of Undervalueds in the 29-year history of these statistics.




Oct. 6 (new high)
9293
PRIMARY TREND INDEX (PTI)
89-Day Moving Average of PTI
ADVANCE-DECLINE RATIO
Unusual to see the A-D ratio lagging so far behind the PTI. Which one do you believe? A steadily rising PTI will pull everything up with it. BUT, the PTI has to keep rising.
MAY
JUNE
JULY
AUG
SEPT
OCT

Last week daily new lows on the NYSE rose to above 44, the highest since last March. This is an early indication (I've discussed this before) of *increasing selling pressure.*

Economy: The economic situation is both confusing and extremely interesting at this time. Fed Chairman Greenspan (who obviously has access to mountains of data) appears to be bullish on the economy, as the accompanying news clip indicates. On the other hand, the *Liscio Report* (and John Liscio has been very good) notes that "*the inventory sales ratio just hit its highest level in two years. Inventories rose for the 16th straight month, while sales plunged 1.2% in July, their steepest rate in four years. The latest news on the trade front shows that both imports and exports were down in July, another sign of weakening demand around the globe. Expect more of the same in the months ahead, because for the first time in this five-year expansion, economic growth is falling short of the consensus estimate.*" [*Liscio Report* -- (201) 509-2256.]

Greenspan bullish on US economy

By Michael Prowse in Washington

The US economy is regaining momentum without putting upward pressure on the inflation rate, Mr Alan Greenspan, the Federal Reserve chairman, indicated yesterday in bullish congressional testimony.

On fiscal policy, he said he fully expected Congress and the White House to reach an agreement on a budget-balancing deal and to avoid a default on government debt.

"The firming of monetary policy in 1994 and early 1995 appears to have been sufficient to head off a ratcheting up of inflation," he said. At the same time, the latest jobs and production data were "consistent with a firmer pace of growth" than in the second quarter when the economy grew at an annual rate of only 1.1 per

Greenspan: sees budget deal

indicated only a slowing in the pace of business investment. The inflation outlook was

So who or what are we to believe? Liscio has been very good on the economy, and he's a prodigious worker and analyzer of facts. As for Greenspan, he's never been that good at economic forecasting. And Greenspan does have an agenda, which is to be reappointed to the Fed Chairman position. I guess in the end the safest procedure is simply to watch the market. One thing we can be certain of -- the market will detect forthcoming boom or bust conditions well ahead of the economists.

Henry Bendinelli sent me some interesting comments concerning what he terms "the forces behind the current unprecedented market boom." Henry notes that "within the last few years there has been a tremendous increase in the number of people who are selling listed securities to the public." Writes Henry, "I read somewhere that there exist 10,400 banks in the USA today . . . And take a look at the sales advantages that the bank's 'investment advisor' has over the traditional securities salesman working in a brokerage house. (1) He knows how much cash every depositor has -- an enormous advantage. (2) It is the bank which is advising the depositor, rather than an 'untrustworthy questionable' stock brokerage house. Ah yes, FDIC signs all over the place, marble walls, big steel safes, you know -- safety. FACE VALUE UPON DEMAND. (3) Get this -- there must be at least 50,000 bank tellers in the US. I was amazed to learn that tellers are trained to refer depositors to the bank's mutual fund salesman . . . Now you are starting to get the picture. Today you have at least 10,000 banks peddling mutual funds, and 50,000 bank tellers out there prospecting every day for mutual fund sales . . . Want some more sales-pressures which probably dwarf the bank sales-force numbers? Think about the thousands of US corporations which now deduct from the monthly paychecks of their millions of employees the tax-deferred funds or investment in the 401(k) programs. How many billions of new dollars are flowing into the mutual funds *automatically* every month?" **Russell comment:** As I've said before, never has so much stock been transferred wholesale into such weak hands. And it's true, as Henry Bendinelli notes, a lot of the transfers are taking place *systematically* and *automatically.*

INVESTMENT POSITION: Last week I went through the charts of all 30 D-J Industrial stocks. I was surprised to note that most of the Dow stocks had not really made any money for their owners over the last six months. The profitable exceptions were Telephone, Coke, Int. Paper, Merck, MMM (down but coming back), JP Morgan, Philip Morris, Proctor, Sears, United Tech. The other surprise is that the rest of the Dow stocks either did nothing or actually looked quite toppy. Toppy Dow stocks were Allied, Beth. Steel, Boeing, Caterpillar, Disney, GE, GM, Goodyear, IBM, McDonald's. Dow stocks going nowhere are Chevron, DuPont, Exxon, Kodak, Texaco, Westinghouse, Woolworth. All of this suggests to me that the "gravy train" (i.e., easy profit period) is over.

What we're seeing now is a series of *revolving groups,* with one group bringing in eager buyers while another group suffers from sellers. That kind of highly selective action makes it a difficult market to make money in, but the operative fact is still -- the primary trend of the market is bullish.

I've had many calls recently asking whether one should buy stocks or whether "it's too late in the game." I feel that it's now late. Furthermore, with the Percentage of Undervalued Blue-Chip stocks now down to a record low of 4%, this market is on the thinnest ice it's been on -- in many years. *"Let the buyer beware."*

DOLLAR: The currencies are playing an increasingly greater role in investing. One reason is that investing has become totally international.

Let's take an example: if a US investor is bearish on the D-mark he'd have to think twice about buying a German stock. The reason is obvious: the German stock might be doing well, but if the D-mark is sliding the investor could easily be showing a loss when his transaction is translated back into dollars.

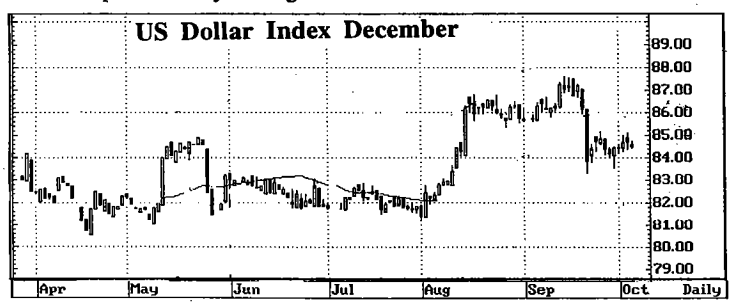
All right, how is the dollar doing? The dollar enjoyed an impressive rally during April to September, it weakened in early September and over the last few weeks it firmed a bit.

The chart below shows the Dollar Index since April. At this point I'd say that the dollar has lapsed into a trading range with the Dollar Index fluctuating between 84 on the downside and 87.5 on the upside. As a guess, I would expect the action to calm down in the currencies. Calmness, in fact, is long overdue. Up to now it's been a wild year for the currencies with the Japanese yen having fallen 3000 points since April.

Japan continues to be in the throes of a recession, and despite a government infusion of $137 billion in projected spending, hard times continue. Of course, the problem of an "expensive" yen continues to aggravate Japanese businessmen. The Bank of Japan

has made it known that they would like the yen priced at around 105 to 110 to the dollar. The BOJ is serious; therefore, look for more yen weakness in the period ahead (the yen is now about 100 to the buck).

Meanwhile, Europe keeps talking about a single European currency, one that they hope will be in place by 1999. England flat out doesn't want the single currency. Two weeks ago Germany's finance minister, Theo Waigel, set off turmoil in the currency markets by requesting strict new qualifications for nations entering the one-currency bloc. Waigel cast particular doubts on Italy's ability to participate in the first stage of monetary union. Markets in Italy, Spain and Sweden were hit as these countries' large budget deficits cast doubt on their qualifications for monetary union. Will there ever be a single EU currency? The latest poll in Europe shows a 50/50 split. It's anyone's guess.



DERIVATIVES: What's the least understood and fastest growing area of the markets? It's the derivatives. So, for your information, let's talk a bit about them. A derivative is a vehicle that derives its value from an underlying asset. The best-known derivative is the FUTURE. A future is an obligation that is traded on an exchange. More specifically, a future is a contract to buy or sell a certain quantity of a commodity for a definite delivery time. For instance, when you buy a gold future you are contracting to buy 100 ounces of gold to be delivered at a definite time. If you sell a gold future, you are contracting to deliver 100 ounces of gold at a definite time. You can close out your future contract *prior to its expiration.*

Next, we have that very much misunderstood derivative, the option. An OPTION represents the right, but not the obligation, to buy or sell an asset at a pre-set price over a specified period of time. The key price, or the price that the buyer is hoping his option will hit, is called "the strike price."

Commodity options are tied to an underlying asset which is a future. Example: a gold option is keyed to the gold future price. Example -- I like gold, so I buy a December gold 400 call option. This means that if gold moves over 400 (the strike price) by December, my option will be "in the money." Once in the money, the option will tend to go up pretty much in step with gold. What happens if my option pushes up to say 395 during October (which is well before expiration time)? The option will have moved up in price, even though it is not yet in the money, simply because it appears that gold's chances of moving over 400 have substantially improved.

Of course, you can sell the option at any time prior to expiration. Since the option expires around December (actually it expires in the last week of November) you must act BEFORE the option expires. If the option expires prior to gold ever moving above 400, the option will expire worthless.

Which brings me to another subject -- one advantage of buying an option is that unlike a future, the option-buyer's loss is *limited to the price of the option.* If the option never goes above the strike price, the buyer simply loses the original cost of the option.

Of course, there are many types of options, and the category that most investors are familiar with is the option on a stock. Example: you like IBM, but you don't want to invest thousands of dollars in the stock. You believe IBM will go past 120 by December. So you buy a December 120 option on IBM. The option costs you $1,000. This gives you a call on 100 shares of IBM, and if IBM goes over 120 or "in the money" before December your option will start moving up pretty much in step with IBM. If IBM moves up to say 110 by September your option will be moving up, but it's still not in the money. At that point your $1,000 option might be worth $1100.

A put option works the same way in reverse. You think IBM will drop to 80 by December. So you buy a 80 December put option for say $900 and hope IBM will head south. IBM sinks to 88 by October, and your option moves up to $1050. You figure you've had enough, so you sell your option. You've made $150 minus commissions, and you're out.

The above are considered "uncovered" options, since you do not actually own the gold or IBM stock. How about "covered" options, where you own the stock? Let's say you own 100 shares of IBM, and you want to attempt to pick up some extra money by SELLING options on the stock. You SELL a 110 December call on IBM for $1100. Two months later IBM climbs over 110. In this case, rather than take a loss you simply deliver your 100 shares of IBM. You've given up your shares in IBM, but it hasn't cost you anything. But now let's say that IBM just mills around in the 95-100 area, but it never goes over 110. In this case, you keep the $1100 that you sold the option for, and you say to yourself, "Hey, extra money, that was easy, so I think I'll sell another call for March 1996." At that point, you're in the option-writing business. That is, unless the buyer who bought your option gets lucky and takes your 100 shares of IBM away from you.

Disasters: most of the disasters in derivatives come from people not understanding risk management. In other words, they let their positions go against them without ever adjusting or closing out the positions. Leverage is large and grows larger as a derivative position moves against you. My advice -- if you don't thoroughly understand how futures and options work, if you don't understand what "marking to market" means, then you're better off not doing anything with futures or options.

Of course, some excellent profits have been made and are being made in derivatives, and I feel that derivatives have been unfairly criticized by the press. Any category, stocks, bonds, real estate, precious metals, is capable of producing losses. But derivatives are, in general, more difficult to understand than straight investment vehicles such as stocks or bonds. And I believe that is why the press has been so quick to criticize them.

NOTES & QUOTES: Although nobody on this side of the border seems to be noticing, the Mexican peso has been slipping badly, now down to 6.54 to the dollar (over 7 to the dollar is my "crisis level"). Last week the Mexican stock market plunged, as foreigners started walking to the exits. I'm watching the Mexican situation with great interest (as you know, I live 30 miles north of the Mexican border).

* *

Simpson: Luck #1: Nobody actually saw him kill Goldman and Nicole. Luck #2: Of all the cops on the LAPD, it had to be the racist cop from Hell, Mark Fuhrman, the cop who found the glove. **Russell Comment:** The jury (with nine blacks, one Hispanic and two whites) had plenty of "unpleasant" experiences with the LAPD. This case gave them all the ammunition they needed to question or disbelieve the evidence (evidence which I thought overwhelmingly showed Simpson's guilt). The jury's four-hour "instant" verdict, I thought, was literally a slap in the face to the prosecution and to the LAPD. It was like saying, "We didn't have to deliberate this tainted case. We just downright didn't believe (or preferred not to believe) the evidence that the LAPD came up with." **Two questions:** (1) If O. J. is *innocent,* as the jury says he is, will the LAPD or the FBI now look for the "real killer"? Pleeze! The LAPD knows who the killer is, and they have announced that "the case is closed." (2) If O. J. is *guilty,* how will his insides handle it? Unless O. J.'s a sociopath (and I don't think he is) his guilt will gnaw at his insides. He will get sick, confess, or do something very weird (often a terrible accident). Read Dostoievski's "Crime and Punishment."

* *

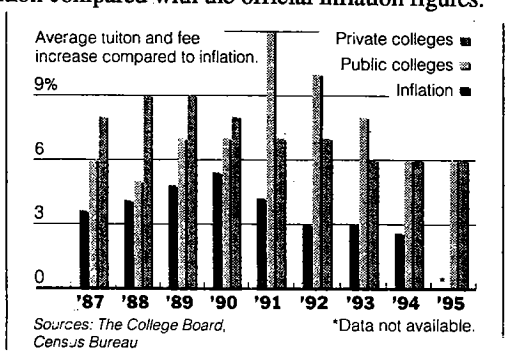
A wag with the *NY Times* notes that when you see any of the following, the bull market is over: (1) Your lottery agency opens a discount brokerage firm, (2) Alan Greenspan's face goes up on Mt. Rushmore, (3) Tom Hanks lands the lead in "The Charles Schwab Story," (4) Dan Dorfman wins the Pulitzer Prize, (5) Michael Jordan leaves the NBA for good and opens a mutual fund, (6) MTV runs a stock ticker at the bottom of the TV screen, (7) Matsushita buys the Vanguard Group.

* *

America's fascination, or rather its obsession, with who's making how much or who's richer than whom, has reached the "sick stage." A cartoon in a recent *New Yorker* shows a scene in NYC where a giant billboard atop a building announces "The Bill Gate's Wealth Total." The sign flashes Gates' net worth minute to minute. Today, articles in leading magazines cover such subjects as Hollywood's Top Salaries, America's Wealthiest Women, How to Marry a Billionaire, The World's Wealthiest Bachelors, The World's Richest Companies, on and on. It's all so spiritual.

* *

The boys in Washington have decided that inflation has been overstated by at least 1%, so naturally they want to adjust the CPI (of course this will *reduce* government payments in many areas including Social Security). But the American public knows a lie when they hear it. For instance, if you've got kids going to college study the chart below, which shows the increase in the average college tuition compared with the official inflation figures.



Note: Current tuition to Amherst is $20,719, Emery -- $18,770, Univ. of Chicago -- $19,875, Stanford -- $19,695. I showed these figures to Faye. She said, "I paid tuition of $4,500 to Stanford in the mid-1970s, but I did have a $1,000 scholarship." Inflation in the '90s? You better believe it.

* *

Let the Good Times Roll. Anyone want a really nice apartment in NYC? Ann and Gordon Getty have put their fab Fifth Avenue apartment up for sale. Price is $12.5 million. And oh yes, you'll also have to be approved by the building's board.

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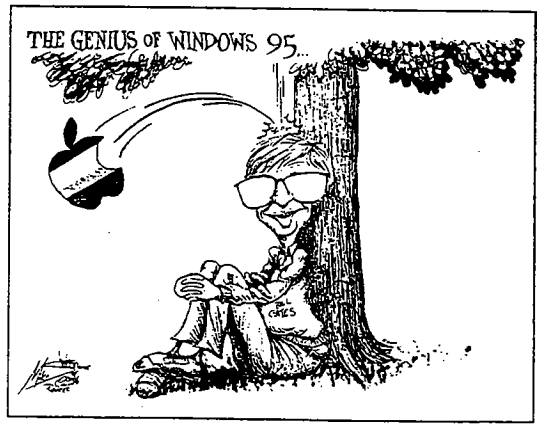
Italy: Giorgio Armani, Gianfranco Ferre, Versace, Erto, Krizia, along with 18 other of the biggest names in fashion -- they'll be going on trial this fall, and the charge will be bribing tax inspectors with hundreds of millions of lira. The designers claim they were victims of extortion, that they were forced by crooked inspectors to pay the money. Should be quite a trial.

* *

Fashion Model Cafe, Harley Davidson Cafe, Planet Hollywood, Hard Rock Cafe. Now the latest, the All Star Cafe, is scheduled to open soon in NYC's Times Square. Partners will include Joe Montana, Wayne Gretzky, Andre Agassi and Ken Griffey, Jr. The theme restaurant, another fad that's proliferating to the nutty stage. Hey, how about this one -- the Financial Analysts' Cafe? A free stock tip plus a packet of aspirin and an Alka Seltzer with every meal. Any investors out there?

* *

To my mind, one of the biggest corporate mistakes ever was Apple's refusal to license its superior operating system to other companies. Had Apple done that, Microsoft might not be around today. After all, Microsoft has spent multi-millions trying to fashion software that's as good as the Mac. Now Apple is trying to get IBM with its great marketing capabilities to drop its own OS/2 and adopt the MAC system. IBM should do it -- I far prefer MAC to Microsoft, and maybe it's not too late for Apple to stage a comeback. But sadly, I don't think IBM wants to do it. Late developments: Joe Graziano, Apple's CFO, is quitting after telling Apple's directors that the company's future is bleak and that he thinks Apple should merge or be taken over.



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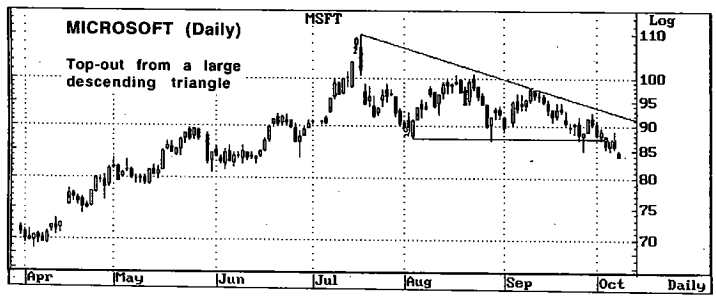
Speaking of Microsoft, sales of its wildly-touted Windows 95 are not going as well as expected. Evidently, sales of Windows 95 peaked at $108 million on the first week of sales, and since then sales have steadily declined, sinking to $33 million on the week of September 14-20.

In the meantime, the stock appears to be topping out. From the high of 110, MSFT has recently broken below 88, a drop of 20%. I've considered MSFT the new market bellwether, and its decline could be very significant.



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General Powell presents an interesting study in how to get ahead in the military. I don't know whether he ever saw actual "shooting combat," but he did serve two tours in Vietnam. At age 32 Powell was sent by the Army to George Washington University where in 1969 he earned a master's degree in business administration. Next Powell became a White House Fellow, apprenticing at the Office of Management and Budget. Then on to the National War College (headed by my old high school classmate, Gen. Elias Suret). Next Powell was military assistant to four defense secretaries. Then assistant to Frank Carlucci when Carlucci was national security advisor. Next, Powell was named Reagan's sixth national security advisor and finally -- Powell to chairman of the Joint Chiefs of Staff. In other words, Powell knew his politics -- he was basically a bureaucrat general, a beltway battler. But who can argue with success, and certainly Powell was extremely successful. Powell was also a man who knew how to stay out of trouble. To be a good president, however, you have to do a lot more than know how to stay out of trouble. Any way you look at it, however, Powell has gained a large popular following, even as Dole's star has been sinking.

General Powell was here in La Jolla on September 28, signing books and talking it up with customers at our local bookstore. I'm embarrassed to say that I didn't wait around for the general. But he seemed to be doing very well without me (the line waiting for Powell to sign their books ran to four blocks long). Latest theory -- if the General is anything political, he's some kind of liberal Republican. Powell's for freedom of choice on abortion and also for gun control. Could conservative Republicans swallow that?

* *

Booming Chips: Ninety (90) new wafer-fabrication plants (chips) will come on line this year at a cost of more than $75 billion. Although the US has now taken the chip lead from Japan, Asia is now spending huge amounts. In September alone Fujitsu, Hitachi, and a partnership of Toshiba and IBM plus Motorola and Thomson Microelectronics have announced plans to build five chip plants at a cost of $6 billion. On top of that the giant Samsung Group will join the billion dollar group. In the old days the price of chips would fluctuate wildly, at one time dropping 50% in a matter of months. The hope is that the industry is more stable now. Problem -- obsolescense and the fact that by the year 2000 it will cost $3 billion to build a new chip plant.

* *

There are arguments galore as to whether merger ("synergy") or breakup is the way to go for American companies. AT&T surprised everyone with its announcement of a three-way breakup. The huge company, founded by the inventors of the telephone, after over a century, is finally getting out of the equipment manufacturing business. AT&T's abandonment of vertical integration makes Wall Street wonder about the Disney/Cap ABC and all those other entertainment mergers. Then we have General Motors spinning off EDS and Time Warner's bid for Turner Broadcasting (described as one weak company going after another weak company). Break 'em up or merge 'em, who's right and who's wrong? We'll know when the next bear market separates the winners from the losers.

* *

The biggest mountain of pure BS generally emerges when politicians talk about the nation's deficits and debts. The latest actual figures show that the national debt is now $4.965 trillion. Exactly one year ago the debt was $4.685 trillion. That means that we have added $280 billion to the national debt over the last twelve months. One analyst noted the following: taking a $4.725 trillion national debt and dividing this by 263 million Americans means that every man, women and child owes $17,965 of the nation's debt. Or to put it another way, our idiots in Washington have not only spent every tax dollar they've collected, but they've spent our future -- to the tune of $71,860 per family of four. And what do we have for all this wild deficit spending? We have social upheaval, an inefficient bureaucracy that nobody wants, high taxes, the worst crime rate of any developed nation, gangs in every city and rampant juvenile delinquency.

* *

The impetus behind the urgency to get interest rates down can be seen in the chart below. With $17 trillion of debt outstanding, a 1% swing in interest rates amounts to $170 billion either up or down in interest payments. No wonder the pols want the CPI and interest rates down, down, down.

Total interest-bearing debt surpasses $17 trillion

US government securities	$5.64
Tax-exempt securities	1.20
Corporate and foreign bonds	2.42
Mortgages	4.41
Consumer debt	.99
Bank loans	.83
Open market paper	.62
Other loans	.94
Total debt outstanding	17.05

Source: *Flow of Funds Accounts*, Fourth Quarter, Federal Reserve.

Notes: Since 1940 Congress has raised the national debt limit 77 times. Now Congress is faced with raising the national debt from the current $4.9 trillion to $5.5 trillion. In the old days all expenses were centralized, and if you wanted money you had to go to a tough Congress to get it. The government today makes three million payments a day from 13,000 locations. Government spending, to put it mildly, is TOTALLY, crazily out of control, with no one person knowing where the spending is coming from or how it can be stopped short of wholesale cutting of useless, inefficient departments and agencies.

The American Institute for Economic Research in Great Barrington, VT has this to say about government spending. "The increase in nominal (government) outlays is staggering. Total government spending is 7 times higher than it was in 1970, 17 times higher than in 1960, and 233 times higher than in 1929."

* *

My youth was spent during the Great Depression. It was spent looking at $500 new Fords, nickel cups of coffee, 65 cent spare rib dinners, $125 monthly rents and long lines outside employment offices. My father worked for the Tishman Realty Company during the Depression. Tishman owned a lot of Park Avenue apartment buildings, and my father was their general manager. In those tough days you didn't just rent or lease an apartment. No, my father would have to *negotiate* with a perspective tenant, all in an effort to try to get a decent price for an apartment. And believe me, it wasn't easy. Many a night Dad would come home exhausted after spending three or four hours trying to get a perspective tenant to sign a rental lease on an apartment that would probably sell for $3 to $5 million today (as a condominium).

So I still (to the amusement of my wife) mumble about the 80 cent price for a pack of gum that used to sell for five cents or $2.20 for a loaf of bread that used to sell for fifteen cents. "Get out of the past," Faye kids me, "this is 1995." "Hey," I retort, "run through the house and turn out all the lights."

* *

Recently, a subscriber sent me a piece (from the *American Spectator* by Ben Stein). I thought the following excerpt was worth repeating: "My parents, who are not really rich, have never, as adults, been seriously worried about money. They have always lived modestly, even frugally, and have always had wants that are modest compared with their means. They are not geniuses at investing and have never been wildly well paid. They have just been like the ant, putting aside money year in and year out, and now they have a comfy cushion around them. What I keep coming back to is that the real Bottom Line is a simple idea that the savers know and the terrorized don't; money is not for spending; it's for saving, and then for spending. Or you might put it a different way. Money is not for spending now. It's for spending on a rainy day. If that rainy day doesn't come in your life, it might come in your children's life or their children's. Money is protection, the shield for your family and for you. There is no new suit of clothes, no vacation, no new car that can offset the pain of being truly worried about running out of money. I have had that fear. It comes at about five in the morning, and it keeps you awake and makes your mouth dry and makes you hate the sound of birds singing in the morning. It's probably not realistic in my case, but I don't want anyone I love to come even close to it."

Russell comment: I guess you have to be broke or have lived through the Depression to fully understand what Stein is saying. I understand what he's saying. I grew up worried about money. I guess I absorbed that from my parents, particularly from my father, who was always worried that he wasn't doing well enough, that he might lose his job, that times would get even worse. That, after all, was the psychology of the Depression.

I just saw a cartoon that sort of goes with the above. It shows two men, obviously unemployed, sitting on a bench in the park. One says, "The good news is that my company's stock just hit a new high; the bad news is that my company laid me off six months ago."

* *

In line with the above, the Sept. 25 *WSJ* featured a front-page article about the spread of gambling in America with specific reference to the proliferation of gambling in Iowa. The article talked about many people who have become gambling addicts, people who have lost their assets, their families and their self-respect. Personally, I believe gambling is a curse, but it's not only a national curse, it's a personal curse like smoking or sniffing cocaine or drinking half a bottle of gin every day. Should states outlaw gambling? Should they outlaw smoking? Should they make

helmets for bikes and motorcycles mandatory? I don't know. I do know that sooner or later a person has to grow up and learn how to make adult decisions about his life. It all starts with taking responsibility and with the individual caring about himself. And that starts with the parents caring about the child. Unfortunately, the "advanced" society of today, too many children don't even know who their parents are.

* *

Are you getting sick of the media's incessant coverage of itself? Are you tired of hearing about the "media moguls"? Do you want to know more about Michael Eisner or Michael Ovitz or Barry Diller or Jeffrey Katzenberg or Steven Spielberg or Larry Tisch or Herb Allen or David Geffen or Lew Wasserman or Ted Turner or Rupert Murdoch or even Edgar Bronfman? I'll admit I was fascinated for a while, but now I'm tired of all the moguls. I don't care what Barry is planning or what Rupert is doing. But hey, did you know that Spielberg's mom owns a deli in Hollywood? Did you know that Turner has one of the country's biggest buffalo herds?

* *

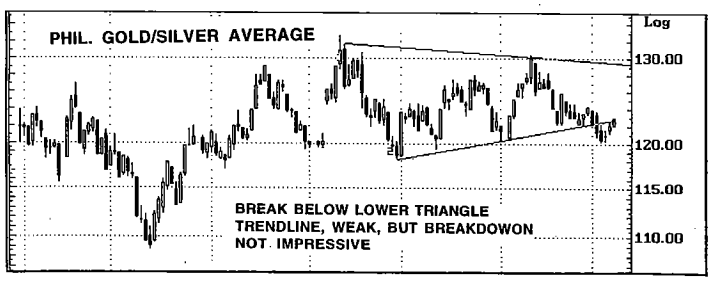
The talk about a new tax system is almost deafening. Lugar wants a national sales tax, Specter wants a flat tax, Armey wants a flat tax, Forbes wants a flat tax, Dole is uncertain, Clinton is testing the wind and is ready to jump in any direction. My question -- is it all just election baloney or will Congress and the President actually have the guts to change our outrageous tax system (I do believe, however, that Forbes is deadly serious about changing the tax system)? William Roth, Chairman of the powerful Senate Finance Committee, states that tax reform is "critically important. There is nothing that makes people back home madder than this complex tax code."

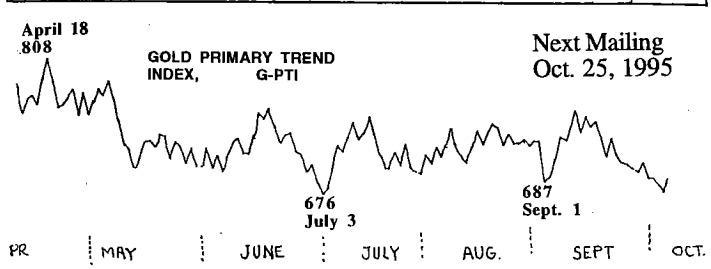
GOLD: Theories and scenarios are interesting, often fascinating, but in this business one has to deal with something more important -- REALITY. And the reality is that, for whatever reason, gold has just not been moving up.

The static action of the metal has not been kind to the gold shares. This daily chart of XAU, the Philadelphia Gold/Silver Average, shows that the Average formed a large triangle, and last week XAU broke out of the lower trendline of the triangle. The breakout was *not forceful,* but the violation was disconcerting, and gold-philes obviously would have preferred that it hadn't happened.

The action of my Gold-Primary Trend Index (G-PTI), like XAU, has not been encouraging. I introduced the G-PTI in December 1993, and it has done its job well. Its job is to disclose the underlying trend of the entire gold spectrum.

Since December 1994, the G-PTI has worked basically sideways, hitting a low of 676 on March 1, rallying to a high of 808 on April 18 and then back to the 676 low on July 3. Last Thursday (October 5) the G-PTI sank to a low of 678, but like XAU there was no downside follow-through. Hope springs eternal.





LATE MARKET NOTES: On its most recent rally, the Dow stalled about 20 points below its record high of **4801.80**, with the A-D ratio and the Transports lagging badly. The new week (starting Oct. 9) started off sharply on the downside. Daily new highs had already dropped off dramatically, never a good sign (particularly with the Dow near its highs).

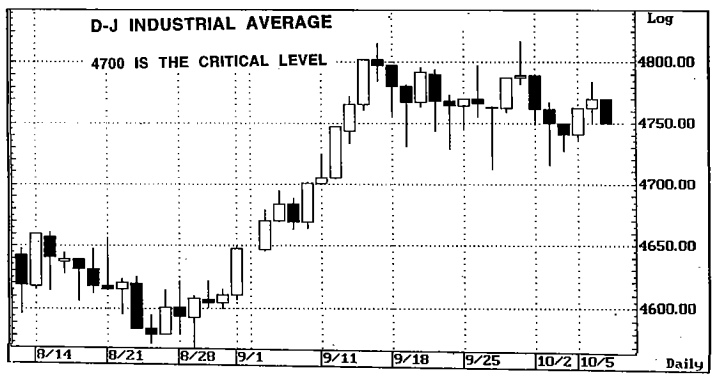
Note on the page 2 chart the PTI on Oct. 6 rose to a new record high of 4293. The PTI has acted considerably better than the A-D ratio. This is quite unusual, and I'm as interested as you are to see how this puzzle unfolds. Ordinarily, I'd give more credence to the PTI, but history never repeats in exactly the same way, and maybe this time the PTI will be a lagging (but confirming) indicator.

In the last Letter I included a Japanese candle stick chart of the Dow. On the chart each vertical bar equals one day's action, black bars are down-days while whites are up-days. I stated that the Dow would turn bearish if it closed **below 4700.** As this is written, Dow 4700 is still holding.

The Transports have obviously been the weaker Average and have violated a three-month rising trendline. A break under 1900 would render the Transports extremely weak. So for confirming weakness, I would want the Dow to break under 4700 and the Transports to break under 1900.

The word is out -- corporate earnings in the period ahead will be leveling off or declining. Investors are switching to defensive shares (i.e., the Utility Average is at a new high for the year).

But I keep repeating -- stocks are now in VERY weak hands (i.e., the funds). The bear loves to strike when his victim is at his weakest. The big question: is this just a decline -- or just a secondary reaction -- or something worse? But wait -- didn't they tell us that "buy 'em and hold 'em" is the royal road to riches?



LATE TRENDS: **(1)** The French franc is under attack. Unemployment in France is over 11% and the French government's deficits are exploding. Consequently, defensive and scared money has moved out of the F. franc and into the D-mark and the Swissie.

The welfare states of the world (meaning almost every developed nation) are finally hitting the brick wall of *reality.* The formula: Welfare = deficits, and deficits = a weak currency. The G-7 nations finance ministers met last week and announced that they'd "like" a strong dollar.

Never in history has a reserve currency nation (i.e., the US) also been a debtor nation. Remember, a debtor nation exports its currency. Thus, the huge world problem of the 1990s: can a government cut back on its deficits and deflate its bureaucratic balloon -- and survive politically?

(2) One observer stated that the Simpson verdict was the worst thing to happen to race relations in 40 years. I won't argue the point . . . Word is that Farrakhan has asked Colin Powell to join next week's black, million man march (men only, no women) on Washington. Will Powell march? Will "Showgirls" win an Academy Award? Late rumor has it that Simpson will marry Paula Barbieri -- and that he will also march on Washington. Gad, the mind boggles.